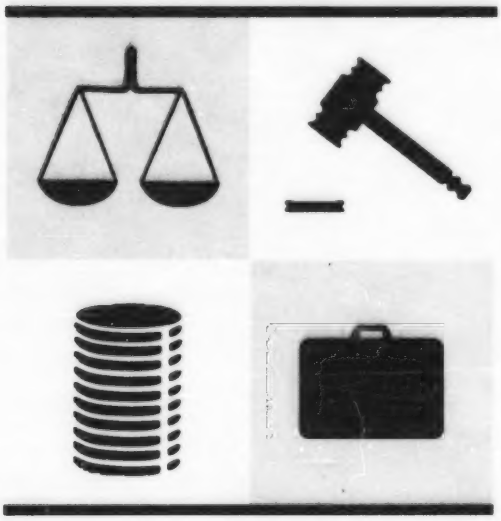
PENSION COMMISSION OF ONTARIO



Annual Report

1997-1998

Pension
Commission
of Ontario

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Pension Commission of Ontario

Ontario

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Message from the Chair

As readers may be aware, this is the last Annual Report of the Pension Commission of Ontario (PCO). During the next fiscal year the PCO will merge with the Ontario Insurance Commission and the Deposit Institutions Division of the Ministry of Finance to form the Financial Services Commission of Ontario (FSCO). The new regulatory structure reflects the increasing integration of the financial services industry and holds the promise of better co-ordinated regulation, reduced compliance costs and stronger consumer protection.

The Pension Commission of Ontario was established in 1963 to administer the *Pension Benefits Act* and the accompanying Regulation, both of which took effect at the beginning of 1965. Over the years the PCO has focused on its primary duties to administer and enforce pension legislation and to promote the creation and improvement of pension plans. While these duties on occasion appeared to conflict, since the regulatory burden has sometimes deterred employers from setting up or continuing plans, the Commission has made every effort to keep both responsibilities in mind. To do this, two priorities have been stressed: communication with the pension community, and the streamlining of regulatory processes.

To provide guidance and encourage better understanding of PCO procedures among both plan sponsors and members, the Commission has developed and published a series of policies that now total more than 325 in number. Communication has been fostered by the practice of issuing PCO decisions in writing, with detailed reasons where appropriate. Periodic bulletins, an electronic bulletin board service and various educational materials have kept the pension community informed and up to date — a goal that will be furthered in 1998-99 with the introduction of the PCO's website on the Internet. Recognizing that communication must be two-way, the PCO has consistently sought stakeholder input through its Commissioners, external advisory committees, and the pension public at large.

At the same time, the Commission has worked to modernize regulation. The ASPIRE project, launched in 1995, is building a regulatory model that will eventually enable the PCO to utilize computer-based information systems to focus on high-risk situations while low-risk areas become self-regulating to a significant degree. Improvements under ASPIRE are being implemented over several years. A number of filings are currently being redesigned to collect only essential information, and ultimately users will have the option of making filings electronically. The bottom line will be to reduce regulatory costs while keeping the commitment to protect the pension promise.

Harmonization of regulatory processes with other jurisdictions has been and remains an important goal of the Commission. In 1995 the PCO and Revenue Canada consolidated their annual filing requirements in a single Annual Information Return, eliminating the need for plan administrators to make two filings. Sustaining the momentum, the PCO and Revenue Canada developed an Actuarial Information Summary form in co-operation with the Canadian Institute of Actuaries to permit quick screening of actuarial valuation reports. The joint form was tested in 1997-98 and is expected to be put into use in the coming fiscal year.

The PCO participates actively in the Canadian Association of Pension Supervisory Authorities, which represents pension regulators across Canada. An important initiative has been the effort to harmonize the regulation of multi-jurisdictional pension plans. A solution to this

longstanding problem is needed to simplify requirements for employers operating in more than one province and thereby encourage the creation of more plans.

On the whole, I believe the contribution of the Pension Commission has been appreciated by plan sponsors, the supporting industry and most important, plan members. A tangible indicator of our success has been the frequent recourse to section 8 of the Regulation, which provides the opportunity for plan members and sponsors to reach agreement on the sharing of surplus pension funds. During the past three years alone, more than 200 applications under this section have resulted in the sharing of nearly half a billion dollars of pension surplus.

As the 1997-98 fiscal year ends, the administrative structure for pension regulation in Ontario is about to change. Under the new system, the policy-making, leadership and regulatory decision-making roles of the Pension Commission will be taken on by the Financial Services Commission or the Superintendent of Financial Services. At the same time, the PCO's current adjudicative role will become the responsibility of the new Financial Services Tribunal, which as a transitional measure will include those Pension Commissioners holding office as the new arrangements take effect.

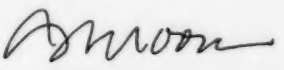
The new structure will build on the achievements of the past 35 years of pension regulation. Over more than three decades of service, the Pension Commission of Ontario has helped to create a vital and vibrant private pension system that has and will continue to promote the financial security of Ontario's pension plan members in retirement. I would like my final words as Chair to be "thank you" to the many people who have made this remarkable legacy possible.

In particular, I would like to acknowledge the deep commitment of the Pension Commissioners over the years to strengthen the pension system in Ontario. Let me add what a satisfying experience it has been to work with the current Commissioners over the past year. Special recognition goes to Don Collins, who has served 11 years on the PCO and will complete his term in June 1998, and to Shiraz Bharmal, who left the PCO in March 1998 after serving nearly three and a half years.

On behalf of the Commission, I want to express appreciation to the four PCO advisory committees, which have provided vital links with all segments of the pension industry and invaluable input to our policy-making process, a contribution I trust will continue under FSCO. Let me also offer a special thank you and best wishes to former Superintendent of Pensions Ross Peebles, who held that post from 1991 until moving to the Ministry of Education and Training as an Assistant Deputy Minister in early 1998, and I extend our support to the new Superintendent of Financial Services, Dina Palozzi.

Full credit for a job well done goes to the staff of the PCO under Policy and Research Director and Deputy Superintendent Nurez Jiwani, Acting Pension Plans Director Pauline Dawson, Senior Legal Counsel Katherine Catton and Registrar Sharon Carr. All employees have worked hard this year not only to keep pace with day to day regulatory duties but also to facilitate a smooth transition to the new Commission.

Pension plan sponsors, plan members and other stakeholders can count on the Commissioners and staff of the PCO to dedicate themselves to making the new Financial Services Commission of Ontario an effective and impartial regulator that will command the confidence of the people of Ontario.



C.S. (Kit) Moore
Chair

COMMISSION MEMBERSHIP
AS OF MARCH 31, 1998

The Pension Commission of Ontario consists of a chair, vice chair and seven members appointed on a part-time basis by the Lieutenant Governor in Council, generally for three year terms. The membership combines the perspectives of plan members, sponsors and technical experts.

CHAIR

Christopher (Kit) S. Moore was appointed Chair of the Commission effective March 24, 1997 for a one year term, which was extended to June 30, 1998. He was first appointed a Commissioner in June 1994 for a three year term, coincident with his retirement as a senior pension actuary with a national consulting firm in Canada. His prior positions included pension consulting responsibilities with another large consulting firm in Canada, and a 20 year career covering actuarial positions in a major Canadian insurance company. Mr. Moore is a past president of the Canadian Institute of Actuaries and continues to contribute actively within the profession. He has taken a particular interest in the debate on the future of the Canada Pension Plan.

VICE CHAIR

Kathryn M. Bush was appointed Vice Chair of the Commission in May 1997. She was initially appointed to the Commission in June 1993 and was reappointed in June 1996 for a three year term. Ms. Bush is a lawyer with the firm Blake, Cassels & Graydon. Her practice focuses on the areas of pensions and taxation.

COMMISSIONERS

Darcie L. Beggs was appointed to the Commission in December 1991 and was reappointed in December 1994 for a three year term and in December 1997 for a one year term. Ms. Beggs is Senior Research Officer, Pension and Benefits Specialist with the Canadian Union of Public Employees (CUPE).

Don G. Collins has served on the Commission since March 1987. He was reappointed in 1990 and 1993 for three year terms and in June 1997 for an additional one year term. Now retired, Mr. Collins was formerly a Canadian director with the Retail, Wholesale and Department Store Union (AFL-CIO and CLC) and vice president of the Ontario Federation of Labour (OFL).

William M. Forbes was appointed to the Commission effective March 25, 1998 for a three year term. Since September 1991, Mr. Forbes has been Director – Pensions, Investments & Insurance at Queen's University in Kingston. Prior to that, he was a vice president at Towers Perrin in the Toronto office. Mr. Forbes is a Fellow of the Canadian Institute of Actuaries and a Chartered Financial Analyst.

Elizabeth M. Greville was appointed to the Commission in February 1996 for a three year term. Ms. Greville earned her law degree from Osgoode Hall Law School in 1975 and was called to the Ontario Bar in 1977. She obtained a B.A. (Hon.) in Political Science and Economics from the University of British Columbia in 1972. Currently, Ms. Greville is Senior Executive Compensation Consultant at Towers Perrin.

Judith Robinson was appointed to the Commission in May 1997 for a three year term. She has been Director, Personnel Services with George Weston Limited since 1980 and serves as trustee of the Canadian Commercial Workers Industry Pension Plan. She was a pension consultant with William M. Mercer Limited and worked in the actuarial and investment departments at the Manufacturers Life Insurance Company.

Joyce A. Stephenson was appointed to the Commission in October 1992 and reappointed in October 1995 for a three year term. Ms. Stephenson is Director, Pension and Benefits, with Maple Leaf Foods Inc. She is currently chair of the Pension Commission's Policy Subcommittee. Ms. Stephenson is Past Director of the Association of Canadian Pension Management (ACPM), a member of the Ontario Regional Council of the Canadian Pension and Benefits Institute (CPBI) and a member of the Toronto Board of Trade.

David E. Wires was appointed to the Commission in February 1997 for a three year term. Mr. Wires is a partner in the Toronto law firm McCague, Wires, Peacock, Borlack, McInnis & Lloyd. He practises as an advocate before the Ontario Court (General Division), the Ontario Court of Appeal, Ontario administrative tribunals and commercial arbitration panels.

RESIGNATION

Shiraz Y.M. Bharmal resigned from the Commission effective March 1, 1998. He was appointed to the Commission in September 1994 for a three year term and reappointed in September 1997 for an additional term. Since 1973, Mr. Bharmal has been a consulting actuary and Managing Principal of the international consulting firm Towers Perrin.

The Pension Commission of Ontario (PCO) is an independent, arm's-length agency of the Government of Ontario, reporting to the Minister of Finance and funded largely by Ontario's pension plan sponsors through fees. The PCO was established in August 1963 to administer the *Pension Benefits Act*, which governs employment pension plans and became effective January 1, 1965. The Commission was continued by the *Pension Benefits Act, 1987 (Act)*.

The goal of the *Act* is to help the people of Ontario replace employment income in retirement with benefits from voluntarily established employment pension plans incorporating minimum provisions. Under the *Act* the PCO is responsible for administration of the legislation and for promoting the establishment, extension and improvement of pension plans throughout Ontario. The PCO also has a duty to advise the Minister of Finance regarding Commission business, pension plans and legislative initiatives to assist in administration of the *Act*.

ROLES AND RESPONSIBILITIES

In fulfilling this mandate, the PCO makes regulatory decisions on specific transactions, such as requests to withdraw surplus funds from a pension plan and applications for refunds of member contributions. In addition, the Commission plays an adjudicative role, hearing appeals from proposed orders issued by the Superintendent of Pensions in the course of his or her duties under the *Act*. When holding hearings, the Commission normally sits in panels of one, three or five members.

The PCO is also responsible for administering the Pension Benefits Guarantee Fund (PBGF), which provides a minimum level of protection to members of defined benefit pension plans. Under a defined benefit plan, members are entitled to specified amount of pension benefit when they retire, based on a predetermined formula. The PBGF may come into play where an employer becomes insolvent and the assets of the pension plan do not cover its liabilities and no other source of funds is available.

The legislation explicitly assigns a range of duties to the Superintendent of Pensions, who carries them out through PCO staff. These functions include registration of new pension plans and plan amendments, monitoring of active plans for compliance with the *Act* and Regulation, and supervision of the wind up process when plans terminate. The Superintendent may appoint third-party agents to administer the pension plans of insolvent companies to safeguard the interests of plan members.

The responsibility to administer the *Act* has led the Commission to develop policies that are binding on the operation of pension plans. Policies assist plan sponsors and administrators to understand their obligations under the legislation and how to fulfill them, and explain to plan members their rights under pension law and how they can be exercised.

THREE BRANCHES

PCO staff are organized into three branches:

The **Pension Plans Branch** has primary responsibility for the regulation of individual pension plans. Branch staff deal directly with administrators, consultants and plan members on a daily basis. Each pension plan is assigned to an officer in the branch who is responsible for all regulatory activity concerning the plan. Annual Information Returns, statements of policies and goals, actuarial reports, financial statements, auditors' reports and other filings under the *Act* are monitored to establish compliance. The branch also collects PCO revenues, oversees the Pension Benefits Guarantee Fund and investigates alleged breaches of the legislation.

The **Policy and Research Branch** co-ordinates the development of PCO operational policies, working with the PCO's four advisory committees and other stakeholder groups. The branch communicates the Commission's decisions, procedures and other information to key publics through the PCO Bulletin, an electronic bulletin board service accessible via computer modem and, beginning in 1998-99, a website on the Internet. The branch delivers corporate services ranging from information technology to financial administration and manages the ASPIRE project, a major corporate initiative to re-engineer the PCO's business processes.

The Pension Plans Branch has primary responsibility for the regulation of individual pension plans.

The **Legal Services Branch** provides in-house legal support to the Commission, Superintendent and staff. It represents the PCO and/or the Superintendent in court and represents the Superintendent in hearings before the Commission. During 1997-98, branch lawyers recorded 47 court or hearing days representing the Superintendent and/or the Commission on 15 different matters. In addition, the branch provides legal advice to the PCO and the Ministry of Finance on pension policy development and proposed legislative initiatives.

FINANCIAL SERVICES COMMISSION CREATED

The *Financial Services Commission of Ontario Act, 1997, (Act)* merges the Pension Commission of Ontario, the Ontario Insurance Commission and the Deposit Institutions Division of the Ministry of Finance into a single arm's-length agency. The Ontario Insurance Commission regulates almost all aspects of insurance in the province, while the Deposit Institutions Division regulates loan and trust companies, mortgage brokers, credit unions and caisses populaires and co-operatives. The legislation effecting the merger was enacted in late 1997 and is being proclaimed in force in stages.

In opting for an integrated structure, Ontario is following the pattern that has proven successful in the federal jurisdiction as well as in Quebec, British Columbia, and in other countries. The change follows wide consultation with the regulated industries, consumers and professional groups.

In response to stakeholder emphasis on the importance of an independent appeal process, the new commission will include a Financial Services Tribunal to provide expert, prompt and effective review of regulatory decisions. As a transitional measure, the tribunal will include those Pension Commissioners holding office as the new structure takes effect. Under the legislation, the PCO will continue in operation for a limited time, to conclude hearings and proceedings started before the *Act* is proclaimed on July 1, 1998.

The first step toward implementing the new structure was the appointment of Dina Palozzi, the current Commissioner of Insurance and Deputy Minister of Revenue and Financial Institutions, as the first Superintendent of Financial Services and Chief Executive Officer of the new Commission, effective January 1, 1998. As Superintendent, Ms. Palozzi is overseeing the consolidation of the three existing organizations and is consulting with stakeholders on how to make financial services regulation more effective and efficient. Pending full proclamation of the FSCO legislation, Ms. Palozzi is also Superintendent of Pensions and of Deposit Institutions as well as Commissioner of Insurance. The merger is expected to be completed in summer 1998.

The new Financial Services Commission of Ontario will operate on a cost-recovery basis, with each regulated sector paying its share of FSCO and ministry costs plus an equitable portion of common services and overheads.

While the number of pension plans in Ontario declined 3 per cent in 1997-98 — to 6,711 as of March 31 from 6,912 a year earlier — the total number of plan members remained virtually unchanged at 1,756,000 compared with 1,762,000 the year before. Sixty per cent of total plan membership was in defined benefit plans, the same level as the previous year. The number of plan wind ups decreased 22 per cent — to 492 in 1997-98 from 633 in 1996-97.

REGISTERED PENSION PLANS AS AT MARCH 31, 1998

Type of Plans	Plans Registered	Per Cent of Total Plans	Members	Per Cent of Total Membership
Defined Benefit Plans	2,975	44%	1,047,576	60%
Defined Contribution Plans	3,607	54%	210,381	12%
Multi-Employer Plans	86	1%	486,093	28%
Others	43	1%	11,738	1%
Total	**6,711**	**100%**	**1,755,788**	**100%**

REGISTRATION OF NEW PLANS DURING 1997-98

Total New Plan Registrations	Defined Benefit Plans	Defined Contribution Plans	Other Plan Types	Total New Membership
270	100	169	1	28,930

PLAN WIND-UPS DURING 1997-98

	Defined Benefit	Defined Contribution	Other	Total Wind-ups
Full Wind-ups	196	183	5	384
Partial Wind-ups	85	22	1	108
Totals	**281**	**205**	**6**	**492**

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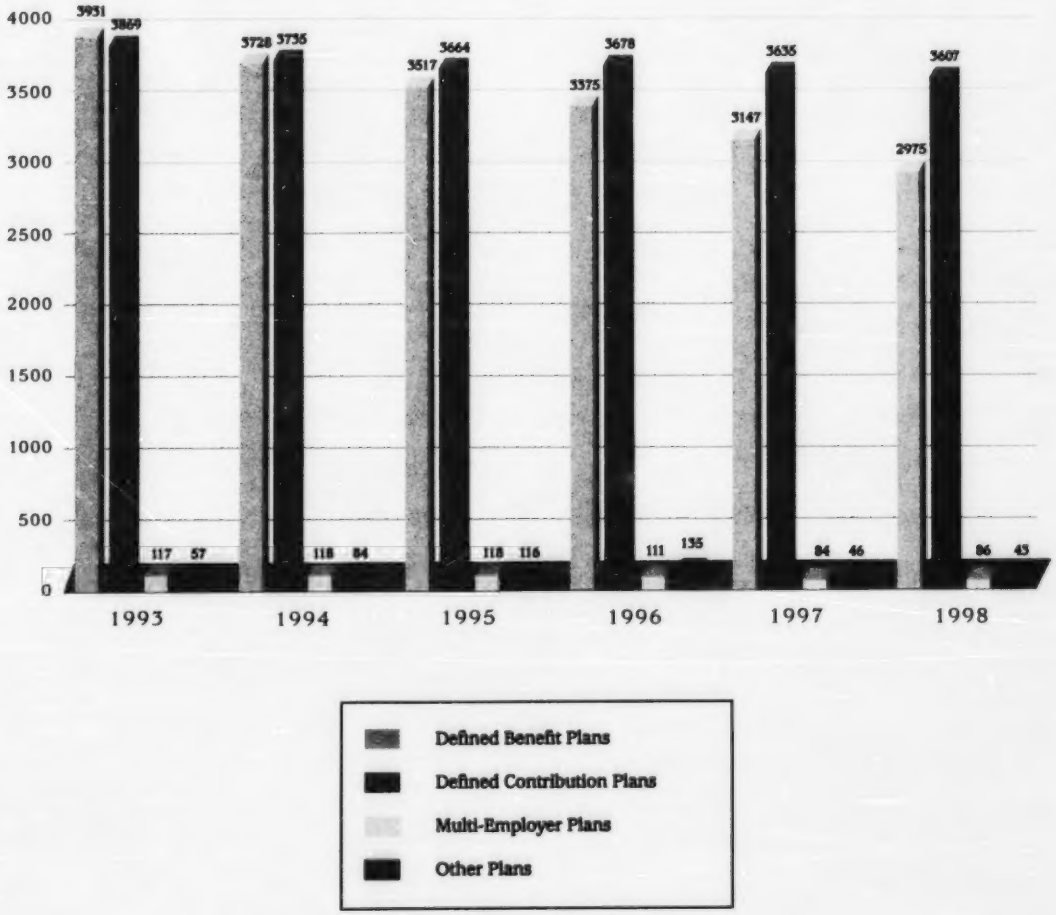
ACTIVE PLANS REGISTERED

BASED ON WRITTEN SUBMISSIONS APRIL 1, 1997 - MARCH 31, 1998



PENSION PLAN TRANSACTIONS REVIEWED

The Commission held 11 monthly meetings in 1997-98 and during these sessions decided a total of 96 matters based on "written hearings"; that is, based on review of documents and written submissions. These items included 67 applications for surplus withdrawal, of which 66 were approved outright or subject to conditions. The Commission also issued five declarations that the Pension Benefits Guarantee Fund applies, and authorized five allocations from the fund to be paid to pension plans.

MATTERS DECIDED BY THE COMMISSION

BASED ON WRITTEN SUBMISSIONS APRIL 1, 1997 - MARCH 31, 1998

Type of Application	Approved	Approved Subject to Conditions	Denied	Total
Surplus Withdrawal on Plan Wind Up, Consent to Be Filed in Court – under s. 8 of Reg. 909 and s. 78(1) and 79(3) of the *Act*	5	5		10
Surplus Withdrawal on Plan Wind Up Pursuant to a Surplus Sharing Agreement – s. 8(1)(b) Reg. 909 and s. 78(1) and 79(3) of the *Act*	9	40	1	50
Surplus Withdrawal – Continuing Pension Plan – s. 78(1) and s. 10 of Reg. 909	1	6		7
Return of Member Contributions – under s. 63(7) and (8) of the *Act*	7	2	1	10
Return of Overpayment – under s. 78(4) of the *Act*				0
Extension of Time and Return of Overpayment – under s. 105 and s. 78(4) of the *Act*	5			5
Total Number of Applications Considered by the Commission	27	53	2	82
Pension Benefits Guarantee Fund				
1. Notice of Proposed Declarations	4			4
2. Declaration that the PBGF applies to Pension Plans	5			5
3. Commission authorises an allocation of money from the PBGF to be paid to a Pension Plan	5			5
Total Number of Matters Considered by the Commission	41	53	2	96

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HEARINGS BEFORE THE COMMISSION

In addition to the monthly meetings, the Commission struck panels on 12 occasions to hold hearings or pre-hearing conferences. The Commission received eight new requests for hearings during 1997-98, and also dealt with several matters carried over from previous years. Case summaries appear below.

City of Ottawa Superannuation Fund (Registration No. 336701; C-006131)

In January 1996 counsel for members of the City of Ottawa Superannuation Fund requested a hearing regarding the Superintendent's approval in September 1995 of the registration of an amendment relating to early retirement benefits. Pre-hearing conferences were held in March, August, and November 1996. In April 1997 the panel chair agreed to dismiss the hearing on consent of all parties with the exception of the Superintendent, who did not oppose the dismissal.

Pension Plan for Unionized Employees of Asea Brown Boveri Inc. Located at London, Burlington and St. Jean (Registration No. 683433)

In July 1996 the Superintendent of Pensions issued a notice refusing to approve the wind-up report filed by Asea Brown Boveri Inc. (ABB) on the grounds that the wind-up report did not provide "grow-in" benefits in accordance with s. 74 of the *Act*. ABB requested a hearing. Plan members belong to the CAW. The union advised the Registrar that it wished to be a party to the hearing. In September 1996 ABB submitted revisions to the wind-up report and asked the Superintendent to withdraw his notice of proposal. The Superintendent and the union are considering ABB's revised wind-up report and its request regarding the notice of proposal. In May 1997 the Superintendent requested that the matter be adjourned until the *GenCorp* case is decided, and in July 1997 the matter was adjourned *sine die* for a period not exceeding one year.

Pension Plan for Employees of the Sherwood Communications Group Limited and Its Subsidiary and Associated Companies (Registration No. 009860; C-9860)

In June 1995 Sherwood submitted a report which wound up the plan effective May 31, 1991 and distributed all surplus to the plan beneficiaries. The Superintendent approved the report in February 1996.

A former member of the plan, who was not included in the wind-up group or in the surplus distribution, requested a hearing under ss. 88, 89 and 90 of the *Act* asking the Commission to: (1) set aside the Superintendent's approval of the wind-up report; (2) set aside a plan amendment improving benefits registered by the Commission in May 1992; and (3) order a partial wind-up of the Sherwood plan over the period March 1986 to March 1989 or, alternatively, order a new wind-up report with an effective date of March 1986 to March 1989. A pre-hearing was held in September 1996 and hearing dates were scheduled to deal with various preliminary issues

in September 1997. By letter in August 1997, the applicant withdrew the request for a hearing. The panel chair agreed to dismiss the hearing.

Confederation Life Insurance Canadian Salaried Pension Plan (Registration No. 0277541)

A group of plan members, the Former Confed Employees Association, requested a hearing in relation to the Superintendent's proposed wind-up order of July 1996. The Commission deferred setting hearing dates to allow the association to resolve outstanding issues. By letter in September 1997, the applicant withdrew the request for a hearing. The panel chair agreed to dismiss the matter.

The Pension Plan for the Employees of the Corporation of the City of Etobicoke (Registration No. 312629)

At its meeting on September 18, 1997, the Commission considered a surplus withdrawal application whereby the City of Etobicoke would receive 65 per cent of the surplus funds in the plan and the plan beneficiaries would receive the balance. Motions were heard from the Canadian Union of Public Employees, Local 185 and eight former members of the pension plan to adjourn the application before the Commission pending production of various documents by the City of Etobicoke. The Commission adjourned the matter until October 4, 1997. At that time the Commission gave its consent to the City's application. Reasons for the decision were released in November 1997.

Non-Contributory Pension Plan for Represented Employees at Parts Distribution Centres, Chrysler Canada Ltd. (Registration No. 337808)

In November 1997 a former plan member requested a hearing by the Commission for a declaration that he is entitled to a deferred pension or a lump sum payment under the plan. The hearing request is opposed by Chrysler, CAW-Canada and CAW Local 1285. A pre-hearing conference was held in January 1998. The Commission decided to hear certain preliminary issues before proceeding to a hearing on the merits.

Pension Plan for Hospital Employees of the Sisters of St. Joseph for the Diocese of Toronto in Upper Canada (Registration No. 302851)

In February 1997 the Canadian Union of Public Employees, Locals No. 1144 and 1590 requested a s. 89 hearing pursuant to the Superintendent's decisions in January 1997 with respect to the transfer of assets from the Pension Plan for Hospital Employees of the Sisters of St. Joseph for the Diocese of Toronto in Upper Canada to the St. Joseph's Health Centre Pension Plan, the Providence Centre Pension Plan and the Morrow Park Plan. Four of the orders requested are intended to prohibit the asset transfers. The other four orders requested seek: (1) declarations that the plan and the new plans constitute a multi-employer pension plan (MEPP) established pursuant to a collective agreement or trust agreement and (2) orders that the plan be administered by a board of trustees of whom at least half are member representatives.

A pre-hearing conference was held in July 1997. A hearing on jurisdictional issues was held in January 1998. The hearing panel decided that the Commission has the jurisdiction to hold a hearing into whether the pension plan is a MEPP.

Clergy Retirement Pension Plan of the Diocese of Hamilton

In September 1996 the Superintendent of Pensions issued a notice proposing to order the Diocese of Hamilton to register its pension plan in accordance with ss. 9(2) of the *Act*. The Diocese of Hamilton requested a hearing. A pre-hearing commenced in May 1997, and was continued in September 1997 and February 1998.

Pension Plan for Salaried Employees of McDonnell Douglas Canada Ltd. (Registration No. 520593)

In November 1996 the Superintendent advised certain former members of the McDonnell Douglas Plan that he would not order the partial wind up they had requested. In December 1996 an individual, on behalf of a group of former McDonnell Douglas employees, requested a hearing regarding the Superintendent's refusal to order a partial wind up of the plan.

A pre-hearing was held in July 1997, and continued in October and November 1997. A jurisdictional hearing was held in March 1998. At the jurisdictional hearing, the panel requested additional submissions on the factual and legal scope of the hearing if the Commission decided that it had jurisdiction to conduct something less than a full *de novo* hearing.

Ontario Hydro Pension and Insurance Plan (Registration No. 352377)

In March 1998 a former member of the Ontario Hydro Pension and Insurance Plan requested a hearing under s. 89 of the *Act*, with respect to the refusal of the Superintendent of Pensions to issue a Notice of Proposal under s. 87. The applicant asked that the hearing request be held in abeyance as he was also requesting the Superintendent to reconsider the decision refusing the notice of proposal.

CWA/ITU Pension Plan (Canada) (Registration No. 554717)

In March 1998 the Communications, Energy and Paperworkers Union of Canada (CEP) requested a s. 89 hearing regarding a proposed partial wind up of the plan. It asked the Commission: (1) to rescind the resolution of the trustees to partially wind up the plan; (2) to order the trustees and administrator not to take any steps to realize the partial wind up; (3) to require the plan to accept employer contributions on behalf of active members for work performed after December 31, 1997; and (4) to order the trustee to fully consider dividing the plan's assets and liabilities on an equitable basis between a CWA/ITU plan and a CEP plan based on the number of retirees and the number of active participants.

PCO IN COURT

Orders Upheld

The PCO succeeded in the two appeals before the Court of Appeal for Ontario in which it was involved this year. The Court of Appeal upheld the Superintendent's notices issued in 1993 proposing to order that two pension plans of GenCorp, the predecessor employer, be partially wound up because of a plant closure by the successor employer, General Tire. In addition, the Superintendent's notice issued in 1995 proposing to order two Imperial Oil pension plans partially wound up as a result of the discontinuance or reorganization of Imperial Oil's business, was upheld when the Court of Appeal refused leave to appeal. The PCO had succeeded in earlier appeals of both these cases to the Divisional Court.

Enforcement Measures

During 1997-98, the PCO successfully prosecuted a number of plan administrators, officers and directors for violations of the *Act* and Regulation, including failure to contribute to a pension plan, failure to file Annual Information Returns and failure to file valuation reports. In October 1997, for example, Mimik Industries was sentenced to two years probation for failing to remit pension contributions over a period of more than five years. The major term of the probation was that the company make full restitution to the pension fund of all outstanding contributions, plus interest, through minimum payments of at least $2,500 per month.

PCO Intervenes

An ongoing court case concerns the Ontario Hydro Pension and Insurance Plan (Registration No. 352377). In October 1997 Ontario Hydro commenced an application in the Ontario Court (General Division) asking for a declaration that a dual valuation method was permissible under both the *Pension Benefits Act (Act)* and the *Power Corporation Act*. In December 1997 the Power Workers Union asked the Commission to make an order under s. 88 of the *Act* requiring the plan administrator to cease using the dual valuation method and to submit a new report.

The Power Workers Union and the Society of Ontario Hydro Professional and Administrative Employees, the two respondents in the court application, brought a motion to have the court application dismissed or stayed on the grounds that it was premature and that the Pension Commission was the appropriate adjudicative body to determine the issue. Intervention was granted to the Pension Commission of Ontario to participate in this motion as a friend of the court. The intervention motion was heard on February 2, 1998, and the prematurity motion was heard on February 2 and 3, 1998. The court reserved its decision.

ADVISORY COMMITTEES HELP SHAPE POLICIES

The PCO published three new operational policies in 1997-98, as listed in the chart below, to guide the administration and application of the *Act* and Regulation.

Four advisory committees — on Accounting and Auditing, Actuarial, Investment and Legal matters — provide valuable stakeholder feedback on policy options and recommendations prepared by PCO staff. The committees also raise matters of policy, practice and procedure that in their opinion should be reviewed. This year, the actuarial committee met three times, the accounting and auditing and legal committees met twice and the investment committee once. The policy-making process also normally involves review by the staff policy and planning committee and the policy subcommittee of the Commission, before policies are submitted to the full Commission for final approval.

Under the *Financial Services Commission of Ontario Act, 1977*, the policy-making process will change as the Superintendent of Financial Services, rather than the Commission, will be responsible for the administration of the *Pension Benefit Act*. The advisory committees took part in consultations on proposals for a new policy-making process developed by PCO staff for discussion with key stakeholders. The committees also revised their terms of reference in light of the establishment of FSCO.

PCO POLICIES RELEASED DURING 1997-98

Index Number	Policy Description	Publication Date
P520-784	Continuation of Proceedings of Certain Applications Under the Current *Pension Benefits Act* Once the *Financial Services Commission of Ontario Act, 1997* (FSCO) Comes Into Force	March 1998
S900-505	Levels of Consent Required Pursuant to Section 10.1 of Regulation 909	March 1998
T800-901	Subsidized Early Retirement and Bridge Benefits where Eligibility Requirements Have Been Met and Plan Provides	March 1998

STREAMLINING PENSION REGULATION

In 1995 the PCO launched the ASPIRE project — which stands for Affordable Strategies for Process Innovation in Regulation — an agency-wide initiative to restructure the pension regulatory process by streamlining procedures and capitalizing on information technology. The long-term goal is to use information technology to identify high-risk situations requiring close investigation without having to screen all applications in detail. This approach will enable the PCO to focus professional resources where they can deliver the most value.

Ultimately, plan administrators will have the option of filing forms and other documents electronically, and plan members will have electronic access to PCO services and information through local government information centres. The bottom line will be effective protection of the pension promise with reduced compliance costs for industry, fostering an environment that will help expand pension plan coverage.

To move toward the new model, an Actuarial Information Summary form was tested in 1997-98 and is expected to be implemented in January 1999. The PCO and Revenue Canada worked with the Canadian Institute of Actuaries to develop the form, which both government agencies will use for rapid screening of actuarial valuation reports, normally filed for defined benefit plans every three years. The summary form will capture key data needed to determine if the plan is adequately funded.

In addition, the PCO redesigned a number of filings this year to collect less extensive but more meaningful information, and will test the revised filings in co-operation with the industry in 1998-99. A joint audit project was also implemented with Revenue Canada to determine if the audit process could yield useful information for both regulators.

HARMONIZATION EFFORTS UNDER WAY

The PCO is working to harmonize the administration of pension requirements nationwide and is an active participant in the Canadian Association of Pension Supervisory Authorities (CAPSA), which includes pension regulators from all Canadian jurisdictions. At CAPSA's spring 1997 meeting the PCO made a presentation on the ASPIRE project, which provides opportunities for harmonization of filing and other processes. At the fall 1997 meeting CAPSA members reiterated their commitment to harmonization of administrative requirements, particularly with reference to the design of filings.

CAPSA meetings this year also featured special policy sessions on such questions as solvency and funding issues, revisions to registered retirement arrangements and a common approach to flexible pension plans offering members a "cafeteria" of options.

PROTECTING PLAN MEMBERS' INTERESTS

The Pension Benefits Guarantee Fund (PBGF) administered by the PCO is like an insurance policy for defined benefit plans. If a defined benefit plan operated by an insolvent company does not have sufficient assets to pay the promised benefits, and the company has no other source of funds, the Commission after a review may declare that the PBGF applies. Funded through fees levied on Ontario-registered defined benefits pension plans, the PBGF pays certain pension benefits up to limits defined by legislation. The fund does not apply to multi-employer pension plans. This year, claims totaling $2,605,895.47 were paid in respect of nine pension plans.

When a company becomes insolvent, the Superintendent of Pensions normally appoints a third-party administrator to conclude the business of the pension plan. At year end, the PCO was co-ordinating the administration of 182 plans of insolvent companies to protect members' interests and ensure the plans are properly wound up.

MEETING YEAR 2000 COMPUTER CHALLENGE

The PCO intends to raise awareness of the Year 2000 issue.

The "millennium bug" — the inability of computer systems to differentiate the year 2000 from 1900 — poses a serious challenge for pension plans, as it does for virtually all business and public sector operations. Most computers are affected and may either produce inaccurate calculations or shut down entirely after January 1, 2000, if the problem is not corrected.

Computer-based pension plan activities from enrollment to payroll deductions to benefits processing could be at risk. The PCO intends to raise awareness of the Year 2000 issue among plan administrators and underline the urgency of proactive steps to prevent the millennium bug from disrupting the operation of plans.

Internally, the PCO began preparing for Year 2000 in early 1997. By the end of 1997-98, one of the two computer systems was Year 2000 compliant and modifications to the other were in the testing stage. All testing is expected to be complete and the system functional during summer 1998.

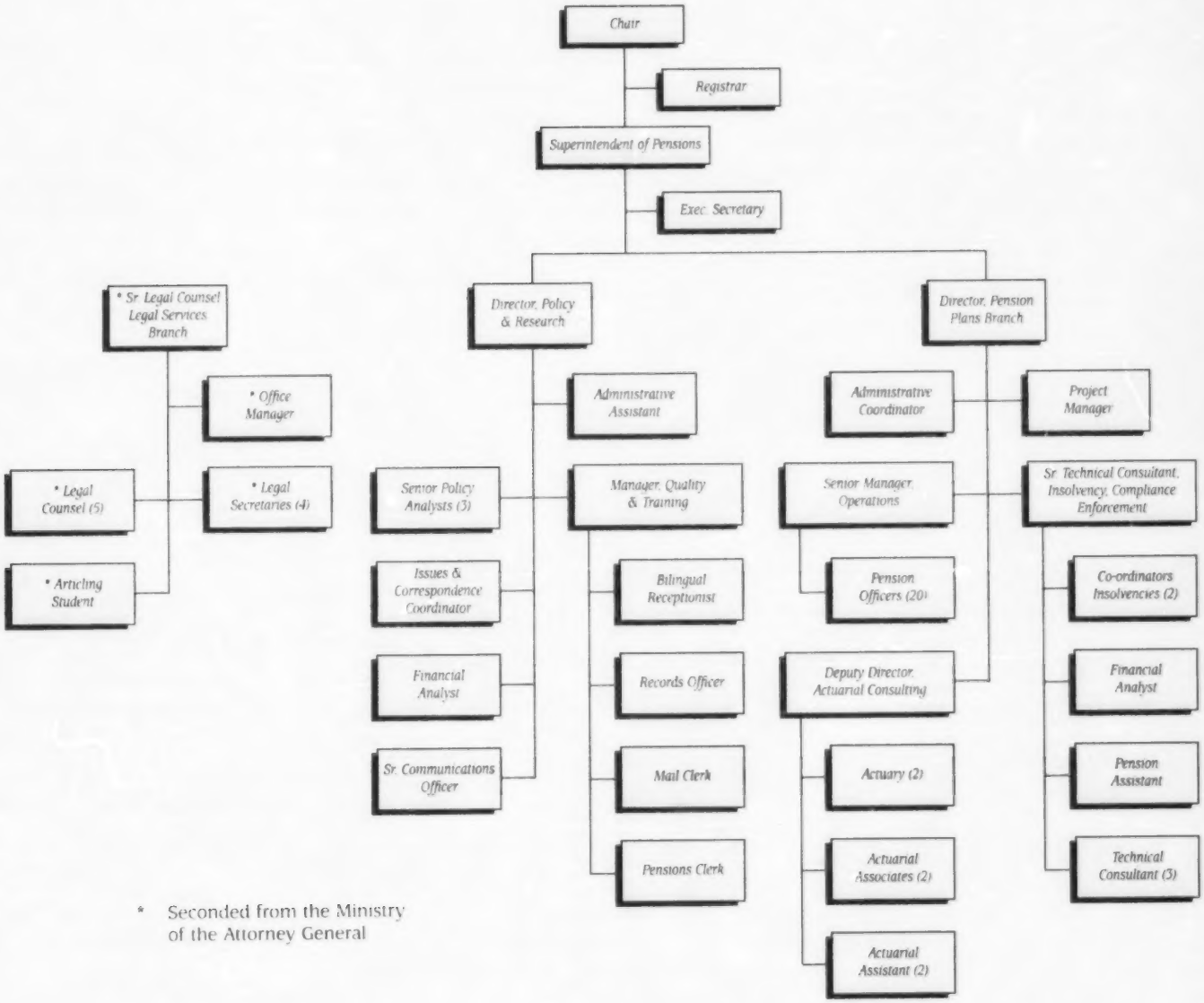
ADMINISTRATIVE OPERATIONS TIGHTENED

This year the PCO moved to more aggressive, proactive monitoring of the timeliness of filings. A letter to the plan administrator is now automatically generated by computer when a filing becomes overdue. A concerted effort to track down old, delinquent filings during the year led to voluntary compliance in more than 90 per cent of cases. Those who did not comply were referred to the PCO's enforcement unit for further investigation.

The PCO has established 30-day and 60-day service standards for processing various types of transactions, such as plan amendments, wind ups, mergers and asset transfers. As of March 1998, these turnaround times were being achieved for 92 per cent of activities related to solvent companies' pension plans and 96 per cent of insolvent companies' activities.

In 1997-98 the PCO continued to improve operational efficiency through further development of the electronic file/document management system.

ORGANIZATION CHART
AS OF MARCH 31, 1998



* Seconded from the Ministry of the Attorney General

ADVISORY COMMITTEES
AS OF MARCH 31, 1998

ACTUARIAL ADVISORY COMMITTEE

Kevin J. Aselstine (Chair), Towers Perrin
Peter Beca, AON Consulting Inc.
Art Bicknell, Sun Life Assurance Co. of Canada
Sylvie Charest, William M. Mercer Ltd.
K. Paul Duxbury, The Segal Company Ltd.
Patrick F. Flanagan, Eckler Partners Ltd.
Karen G. Long, KPMG Actuarial, Benefits & Compensation Inc.
Kem Majid, Watson Wyatt Worldwide
Jean-Claude Primeau, William M. Mercer Ltd.
Peter A. Robinson, AON Consulting Inc.
Alnasir H. Samji, Towers Perrin
Allan H. Shapira, Hewitt Associates

ACCOUNTING AND AUDITING ADVISORY COMMITTEE

Don Wilkinson (Chair), Deloitte & Touche
Richard Farrar, Doane Raymond
R. Wayne Gladstone, O.M.E.R.S.
Marie Holland, KPMG Peat Marwick Thorne
Don Hunter, Price Waterhouse
Douglas Isaac, Coopers & Lybrand
Neil Jacoby, Aurion Capital Management Ltd.
Ron Koehli, The Institute of Chartered Accountants of Ontario
Bryan Kogut, BDO Dunwoody Ward Mallette
Greg P. Shields, The Canadian Institute of Chartered Accountants
Kenneth J. Vallillee, Arthur Andersen & Co.
Karen A. Yule, Ernst & Young

INVESTMENT ADVISORY COMMITTEE

Michael J. Gallimore (Chair), NT Global Advisors, Inc.
Paul D. Matthews
David G. Patterson, Newcastle Capital Management Inc.
Thomas E. Phelps, Noranda
Marc. L. Rouillard, SEI Financial Services Ltd.
Robert Tattersall, Howson Tattersall Investment Counsel Ltd.
Barbara L. Taylor, HOOPP Investment Management Ltd.

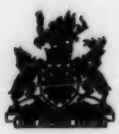
LEGAL ADVISORY COMMITTEE

Dona Campbell (Chair), Sack Goldblatt Mitchell
Leigh Ann Bastien, William M. Mercer Ltd.
Peter K. Fritze, Tory Tory Deslauriers & Binnington
Bernard A. Hanson, Cavalluzzo Hayes Shilton McIntyre & Cornish
David S. McFarlane, Osler, Hoskin & Harcourt
Mary M. Picard, Fraser & Beatty
Clifton P. Prophet, Gowling, Strathy & Henderson
John Solursh, Blake Cassels & Graydon
David Vincent, Fasken Campbell Godfrey
Sean Weir, Borden & Elliot
David Wentzell, McMillan Binch
Mark Zigler, Koskie & Minsky

PENSION COMMISSION OF ONTARIO

Statement of Revenue and Expenditure

for the year ended March 31, 1998



Office of the
Provincial Auditor
of Ontario

**Office of the
Provincial Auditor
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(416) 327-2381 Fax: (416) 327-9862

Auditor's Report

To the Pension Commission of Ontario
and to the Minister of Finance

I have audited the statement of revenue and expenditure of the Pension Commission of Ontario for the year ended March 31, 1998. This statement is the responsibility of the Commissions' management. My responsibility is to express an opinion on this statement based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, this statement presents fairly, in all material respects, the Commission's revenue and expenditure for the year ended March 31, 1998 in accordance with the accounting policies described in note 2 to the financial statement.

K W Leishman

Toronto, Ontario
July 17, 1998

K.W. Leishman, CA
Assistant Provincial Auditor

STATEMENT OF REVENUE AND EXPENDITURE

PENSION COMMISSION OF ONTARIO

for the year ended March 31, 1998

	1998 ($ 000's)	1997 ($ 000's)
REVENUE		
Registration fees and annual information return filing fees	8,166	7,804
Miscellaneous	17	17
	8,183	**7,821**
EXPENDITURES		
Salaries and wages	3,308	3,473
Employee benefits *(Note 4)*	780	585
Transportation and communication	139	128
Services	1,887	1,318
Supplies and Equipment	219	692
	6,333	**6,196**
Less recoveries from Revenue Canada	13	13
	6,320	**7,821**
EXCESS OF REVENUE OVER EXPENDITURE	**$ 1,863**	**$ 1,638**

Contingencies *(Note 5)*

See accompanying notes to financial statement.

Approved on behalf of the Commission:

Chair

Member

1. OPERATIONS OF THE COMMISSION

The Pension Commission of Ontario was established to administer the *Pension Benefits Act*, which regulates employment pension plans covering employees in Ontario. It also administers Pension legislation on behalf of other provincial and federal jurisdictions if a plan registered in Ontario has members in those jurisdictions.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statement has been prepared by management. The significant accounting policies used to prepare this statement are summarized below.

(a) Basis of Accounting

This financial statement has been prepared using the cash basis of accounting which is modified to allow for an additional 30 days to pay for goods and services received during the fiscal year just ended.

(b) Capital Assets

Capital assets are charged to expenditure in the year of acquisition.

3. REVENUE AND EXPENDITURE

Revenue is deposited into the Consolidated Revenue Fund of the Province of Ontario. Expenditure is paid out of moneys appropriated therefor by the Legislature of the Province of Ontario.

Certain administrative expenses have been absorbed by the Ministry of Finance.

4. PENSION PLAN

The Commission provides pension benefits for all its permanent employees participation in the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU Pension Fund) established by the Province of Ontario. The Commissions' contribution related to the PSPF and OPSEU Pension Fund for the year was $342,000 (1997 - $114,000).

5. CONTINGENCIES

Two claims have been brought against the Pension Commission for regulatory negligence. The outcome of these claims cannot be reasonably determined at this time. Accordingly, no provision for it has been made in this financial statement. In the event of any settlement, it will be recorded in the year it becomes determinable.

6. SUBSEQUENT EVENT

The *Financial Services Commission of Ontario Act, 1997*, which consolidates the Pension Commission of Ontario with the Ontario Insurance Commission and Deposit Institutions Division into a single financial services organization, received royal assent on December 8, 1997. The Financial Services Commission of Ontario established under the Act came into force on April 1, 1998 by proclamation of the Lieutenant Governor.

PENSION COMMISSION OF ONTARIO

Statement of Pension Benefits Guarantee Fund

for the year ended March 31, 1998

Office of the
Provincial Auditor
of Ontario

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Auditor's Report

To the Pension Commission of Ontario
and to the Minister of Finance

I have audited the statement of the pension benefits guarantee fund of the Pension Commission of Ontario for the year ended March 31, 1998. This statement is the responsibility of the Commissions' management. My responsibility is to express an opinion on this statement based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, this statement presents fairly, in all material respects, the Commission's guarantee fund income, expenses and changes in fund balance for the year ended March 31, 1998 in accordance with the accounting policies described in note 2 to the financial statement.

K W Leishman

Toronto, Ontario
July 17, 1998

K.W. Leishman, CA
Assistant Provincial Auditor

STATEMENT OF PENSION BENEFITS GUARANTEE FUND

PENSION COMMISSION OF ONTARIO

for the year ended March 31, 1998

	1998 ($ 000's)	1997 ($ 000's)
INCOME		
Premium revenue	31,511	26,972
Investment income *(Note 3)*	4,892	4,240
Recoveries	222	19
	36,625	**31,231**
EXPENSES		
Claims	2,662	9,085
Investment management fees	169	138
	2,831	**9,223**
EXCESS OF INCOME OVER EXPENSES	**$ 33,794**	**$ 22,008**
Unrealized changes in market value of investments	(237)	192
	33,557	**22,200**
Balance in Fund, beginning of year	83,699	61,499
BALANCE IN FUND, END OF YEAR	**$ 117,256**	**$ 83,699**
Consisting of:		
Cash and short term deposits	75,125	56,889
Government and corporate bonds at market (Cost - $40,928; 1997 - $25,791)	40,928	26,028
Accrued interest	1,203	782
	117,256	**83,699**

Contingencies *(Note 4)*

See accompanying notes to financial statement.

Approved on behalf of the Commission:

Chair

Member

1. PURPOSE OF THE FUND

The purpose of the Fund, which is administered by the Pension Commission of Ontario, is a guarantee payment of pension benefits of certain defined pension plans that are wound up under conditions specified in the *Pension Benefits Act*, and regulations thereto. The regulations also prescribe the amount of the premiums required to be paid into the Fund by plan sponsors.

If, at any time, the amount standing to the credit of the Fund is insufficient to meet payments for claims, the Lieutenant Governor in Council may authorize the Minister of Finance of Ontario to make loans out of the Consolidated Revenue Fund to the Fund on such terms and conditions as the Lieutenant Governor directs.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statement has been prepared by management. The significant accounting policies used to prepare this statement are summarized below.

(a) Basis of Accounting

This financial statement has been prepared using the cash basis of accounting which is modified to allow for an additional 30 days to pay for goods and services received during the fiscal year just ended.

(b) Investments

Short-term deposits have a market value that approximates carrying value.

Investments in Government and corporate bonds are stated at their quoted market value. Unrealized changes in the market value reflect the change in unrealized gains or losses that have occurred by holding investments over the year.

(c) Other Expenses

Certain administration expenses have been absorbed by the Pension Commission of Ontario.

3. INVESTMENTS

As administrator of the Fund, the Commission has adopted a statement of Investment Policies and Guidelines. This statement outlines the purpose of the Fund and provides guidelines for the management of the Fund.

The Fund invests in fixed income securities issued or guaranteed by the Federal and provincial governments and Canadian corporations.

Short-term deposits have an average yield of 4.55% (1997 - 3.31%) and will mature within a year.

Investments in government and corporate bonds will mature within seven years and have an average yield of 5.17% (1997 - 5.43%).

Investment income is composed of interest from interest bearing securities combined with realized gains/losses from the sale of securities. The realized net gain on the sale of securities amounted to $93,891 (1997 - $283,707).

4. CONTINGENCIES

There are 18 potential claims relating to the closure of 17 companies and the wind up of their pension plans. The liability of the Fund relating to these claims is estimated at approximately $16 million. Settlement of these claims will be accounted for in the period in which the settlement occurs.